

APPENDIX F
Re: Finding No. 11

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MEMO TO FILE

Prepared by: M. Majoros
Date: 9/3/93
Re: AT&T Price Restructure

During our meeting yesterday concerning MJM-10, i.e. generic upgrades, D. Craig discovered a copy of what appears to be a slide presentation given to BellSouth by AT&T concerning a price restructure which took place in April 1990. The presentation appeared to demonstrate that AT&Ts price restructure was basically retaining total cost but shifting cost from expense to capital, i.e. from software to hardware. The presentation cited to BellSouth concerns such as:

BellSouth Issues

- o Expense budget tightly constrained.
- o Profit regulation based on capital investment.
- o FCC tightened accounting rules 1/1/88 to require expensing of all RTU fees.
- o SESS allocates too much of its cost to BellSouths marketing most competitive customers.

Southern Bell Telephone & Telegraph Co.
Georgia Public Service Commission Audit
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Item No. 118A
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REQUEST: Provide all correspondence associated with the AT&T price restructure for the SESS^R and software.

RESPONSE: Attachment 1 is all the correspondence that could be found in the Company's files which was associated with the AT&T SESS^R price restructure.

INFORMATION PROVIDED BY: Frances Dennis
Operations Manager
675 West Peachtree St.
Atlanta, GA 30375



BellSouth Services

Mr. F. S. Topor
Vice President - Network Systems Sales
AT&T Network Systems
475 South Street
Morristown, New Jersey 07962-1976

Item 118
Attachment 1
Page 1 of 10

Dear Mr. Topor:

SESS growth costs have been a major topic of discussion between BellSouth and the AT&T Southern Region for some time. Your current pricing strategy appears to be to offer a very competitive price for a new switch but results in pricing as much as 36% above new costs for additions.

Of equal importance is our concern with AT&T's feature software pricing policy. We believe that your pricing for feature software is unacceptably high. This conclusion is based on the following observations:

- 1) Features on the SESS have been found to cost frequently up to two to three times as much as similar features on the LAESS.
- 2) Features on the SESS nearly always cost more than similar features on other vendors' switches.
- 3) Feature software pricing is often higher than our Lines of Business organization finds acceptable for competitively marketing services in BellSouth.

One key element appears to be per Switching Module pricing of software. This policy tends to drive not only software, but overall growth costs as well, above reasonable levels. Although our current contract with AT&T provides for capping of some software at 35 Switching Modules, we feel that this does not even begin to address the issue. We believe that all software in the SESS should be capped at 10 Switching Modules.

We ask your assistance in addressing these issues. AT&T has a very good product in the SESS. We don't want to see economics hinder our ability to continue deployment of the SESS.

Sincerely,

Executive Vice President-
Marketing, Network
and Planning

Vice President-
Procurement, Property and
Services Management

CONCURRENCE BEFORE SIGNATURE

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Attachment 1
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NOVEMBER 1989 LETTER ON SESS GROWTH COSTS AND SOFTWARE PRICING
POLICIES.

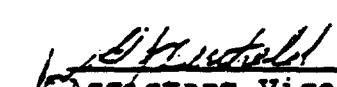
TO: Mr. F. S. Topor
Vice President
AT&T Network Systems

FROM: Mr. J. A. Drummond
Executive Vice President
BellSouth Services



Operations Manager-
COE Products and Services

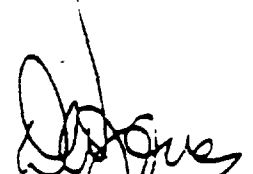

Operations Manager-
Procurement


Director-
Equipment Engineering Support 11/7/89


Assistant Vice President-
Procurement, Product Planning
and Contracting


Assistant Vice President-
Network Provisioning


Vice President-
Procurement, Property and
Services Management


Vice President-
Network Strategic Planning



R. B. Taylor
Vice President
Network Systems Sales

Western Electric products
475 South Street
Morristown, NJ 07960
201-631-4200

February 8, 1990

MR. C. S. BOREN
Vice President - Procurement,
Property and Services Management
BellSouth Services
4515-675 West Peachtree Street, N.E.
Atlanta, Georgia 30375

Dear Mr. Boren:

We wish to apologize for the delay in answering your November letter concerning SESS(R) Switch prices, but we wanted to have a positive reply to your concerns and it has taken since then to convert your comments and suggestions into an action plan.

1989 proved to be a productive year for enhancing the BellSouth/AT&T Network Systems relationship. We both now have a better understanding of each others needs and desires in the area of switching products. On January 1, our two companies implemented a new contract for the purchase of the SESS Switch. In that contract AT&T responded to BellSouth's well documented concerns about the SESS Switch's competitive position on first costs mainly focusing on the forthcoming LAESS(tm) Switch replacements. Our two staffs are currently working to expand that contract for 1990 to include an increased commitment in exchange for certain considerations desired by BellSouth.

Our Switching Product Management has listened to the many concerns BellSouth has expressed about SESS Switch growth prices and software price concepts and we would like to offer a new SESS price structure as a part of our 1991 Commitment Contract. Assuming that the level of business in 1991 is similar to our previous levels of business, we expect to provide BellSouth with the new SESS price structure for orders received after July 1, 1990 and shipping in 1991, with additional changes scheduled in the SE7 generic program time frame.

Some major aspects of this restructure which we feel will address your concern about SESS Switch growth cost are:

1. We have accepted BellSouth's suggestion and we will have a cap for base generic software at 10 Switch Modules.

MR. C. S. BOREN

2.

2. BRCS will be repackaged into groups of features more in line with BellSouth's needs with very attractive pricing.
3. We will begin to move from per Switch Module pricing to per Line or per Switch for new software features beginning in the 1992 time frame (SE7). Overall, software prices for a typical new office or switch module growth will decrease.
4. Our BellSouth list hardware prices will be realigned to better match growth patterns (i.e., the Switch Module prices will decrease and the analog Line Unit and cards will increase.) The total hardware prices for a typical fully equipped Switch Module will increase but the software will decrease.
5. The mix between capital and expense dollar prices for a SESS Switch will change with expense decreasing and capital increasing, but the average bottom line switch system price will remain consistent with the previous SESS price plan.

Some details about this restructure have not been completed at this time, but Al Basey and I are willing to discuss these changes with you when we meet on February 15 and 16, 1990, to present the CO 2000 Story. Also, Joe Mauriello will be requesting a meeting with BellSouth Purchasing in March to present the complete price restructure plan. I know you will find it very satisfactory.

We have also made excellent progress this year in the area of SESS features. BellSouth's creation of one unified list of desired features has helped us greatly in clearly focusing on BellSouth's most important software needs. We completely understand your concerns about the effect that the price of our features have in regard to your ability to generate tariffs that are within the range of your customers willingness to pay. We have suggested that an indication in some manner of the customers willingness to pay or a target software cost element input to the tariff would be a valuable addition to the BellSouth feature priority list. Also, we continue to be interested in working with you to evaluate and implement a way to take advantage of revenue sharing.

The comparison of the SESS feature software prices to the LAESS Switch and to other vendor's prices is most difficult to reconcile. We attempt to price SESS features based on their development costs and their value added. Other vendors may have an entirely different philosophy.

MR. C. S. BORIN

3.

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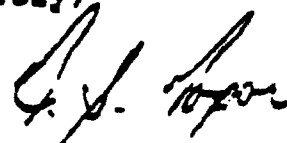
The pricing of LAESS features was set many years ago under a different price policy which has set precedents that are difficult to change at this stage of the LAESS Switch life cycle. The difference in LAESS and SESS switch technology and life cycle stage also affect software pricing.

We have been addressing this concern and you may have noticed recently that new features developed in both LAESS and SESS are priced more consistently and we frequently offer a buy out price that covers both LAESS and SESS.

We consider the SESS Switch to be a premier product designed for the 90's that will carry our customers well into the 21st century with SONET, Broadband and Photonic capabilities. Our switch has significant added value not found in any competitive product and we believe that the slightly higher price is a fair return for the increased benefits available to BellSouth by its implementation into your network.

Let me assure you again that Joe Mauriello and his staff have made me and the entire Switching Product Management Organization very aware of the concerns voiced in your recent letter as well as your previous letters on the availability and costs of SESS special features. AT&T Network Systems wants to be BellSouth's major switch vendor and we will remain price competitive considering our added value. We are confident that our differences can be resolved to our mutual satisfaction. I look forward to personally discussing this issue with you when we meet on February 15 and 16.

Sincerely,



Letter to:

C. S. Borin - BellSouth Services, Atlanta

J. A. Drummond - BellSouth Services, Atlanta



AT&T
Network Systems

J. M. Maunello
Regional Vice President
(Southern)

6701 Roswell Road, N.E.
Atlanta, GA 30328
404 573-7000

June 12, 1990

JUN 15 1990
RECEIVED
SOUTHERN
G. G. G.

MR. C. S. BOREN, Vice President
Information Resources & Technology Planning
BellSouth Services
4515 Southern Bell Center
675 W. Peachtree St., NE
Atlanta, GA 30375

Re: Announcement of SPSS(R) Switch Price Restructure Plan

Dear Mr. Boren:

AT&T Network Systems - Switching Division is pleased to announce a change in the Pricing Structure for the SPSS Switch. In recent meetings with your staff and other BellSouth organizations, we have provided indepth information on this restructure, and we have shown how the Price Restructure Plan will enhance your ability to model, price, and order new growth SPSS Switch purchases. These meetings were planned in advance of this formal announcement to promote better communication and understanding.

The Price Restructure Plan incorporates several changes designed to address concerns expressed by your purchasing and network planning organizations in the areas of budgeting, long term planning, and new service introduction. The result will be to improve the SPSS Switch purchase process and ultimately improve your product and service offering profit margins.

Based on input from your purchasing and network planning organizations, the price restructure plan includes four elements:

Changes in the Hardware and Software Price Balance. The Price Restructure Plan changes the amount of dollars spent on hardware components versus software RTU fees, allowing greater latitude with capital and expense budgets. This change will more closely align with your construction budget, and is aimed at providing more flexible spending.

Per Office Pricing for the SPSS Switch Base Software Fee. The Base Software fee will no longer be priced on a per-switching module basis. One base software fee will be charged per central office. This per office fee is based on an office sized at ten Switching Modules. Offices with less than ten SMs will be charged proportion-

ately less for the base fee, and additional (above 10 SMs) Switching Modules added to the switch subsequent to initial purchase will not be charged any additional base software fee. This change is aimed at reducing your growth expenses, and making it easier to plan for providing new services in the network.

Realignment of SPSS Switch ERCS Offerings. The robust set of SPSS Switch ERCS Offerings are now realigned into three packages to improve ordering procedures and enhance marketability. The new packages are called Universal ERCS, ERCS Centrex (ESSX) and ERCS Extended Centrex (ESSX). The contents of each package were determined based on customer ordering patterns, and are designed to provide you the best choice for an individual SPSS Switch. In addition, the Price Restructure Plan includes a new reduced price for the ERCS Centrex (ESSX) package. Finally, pricing for the three ERCS packages will now be on a per line basis, providing maximum flexibility to introduce new services.

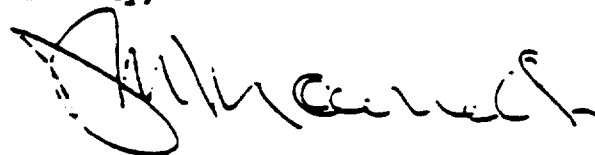
Discount Structure Simplified. Realigning the hardware and software price mix, and repackaging the ERCS Offerings results in the need for fewer price adjustments to determine the bottom-line price for a SPSS Switch. These changes will simplify switch modeling, and will make your purchase procedures easier.

Our goal is to incorporate your budget and planning issues into the standard price models, and move the SPSS Switch plan into alignment with your current and future switch purchase plans. The Price Restructure Plan is not a general price increase, and bottom-line prices will generally remain the same.

The Price Restructure Plan takes effect in two steps, on January 1, 1990, and with the introduction of the SE7 Generic (4091). All current contracts remain intact and will not be affected by the new plan.

As we begin discussions about the 1991-1992 contract, the SPSS Switch Price Restructure is timely and provides a responsive cornerstone for BellSouth's needs.

Sincerely,



Copy to:

J. A. Drummond	- BellSouth Services, Atlanta
W. M. Ferguson	- South Central Bell, Birmingham
G. Giovanni	- BellSouth Services, Atlanta
R. K. Snelling	- BellSouth Services, Atlanta

RECEIVED 11/17

July 20, 1990

MEMORANDUM

TO: W. D. Sweet, Operations Manager - Product Manager
and Contracting (BSS)

FROM: H. H. Puckhaber, Operations Manager - Network
Program Planning (SBT)

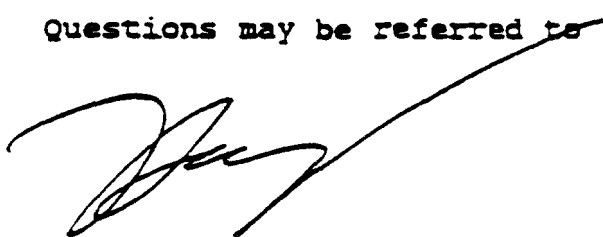
RE: 1991 AT&T SESS Digital Switch Contract

The Southern Bell area planners have discovered some disturbing information from the new edition of SEDOPS, the AT&T Ordering and Pricing system. Essentially, it appears that hardware pricing, thus capital associated expenditures, have increased dramatically. Since SEDOPS is a national tool, BellSouth discounts are not included. Our prices, therefore, might not be subject to the apparent adverse increases when we agree to the 1991 contract.

Our concern is that AT&T may be reacting inappropriately to the concerns expressed concerning software pricing, and that their pricing may be shifting money from software to hardware. While we are attempting to have software priced more economically, it must not be done by increasing hardware costs.

As soon as you have a specific information on the new 1991 discount structure, we would appreciate your analysis of the apparent increases in SEDOPS.

Questions may be referred to Ken Parker at 529-0522.



cc: S. A. Mulcahy, E. W. Stevens, W. N. Ware, Area Planners

August 23, 1990

W. D. Sweet

To: E. M. Zier
Operations Manager
COE Products and Services

From: W. D. Sweet
Operations Manager
Procurement, Product Planning and Contracting

Subject: SESSTM Contract

We are in complete agreement with your memo of August 7, and are very aware of the problems associated with the absence of an arrangement for 1991 business, not only with AT&T but NTT and Stromberg Carlson as well.

As stated in your memo, Procurement did not receive AT&T's complete proposal until July 18, 1990. We have already negotiated improvements to the original proposal, however, should we accept their proposal as it stands today BellSouth would experience a price increase, additional commitment requirements, and new restrictions in our business arrangements with AT&T.

It is our understanding AT&T is providing Firm Price Quotes on initial jobs and growth jobs of 3 switch modules or greater during this period. The remainder of the jobs must be estimated as stated in your memo.

I do not understand Mr. Hester's closing statement. The current agreement covers 1989 and 1990. There was no period of time this year when we were without a contract.

Please be assured we will finalize the best obtainable agreement at the earliest possible date with AT&T.

If there are any questions please contact me or Steve Manion at 420-2140 or 420-2389, respectively.

W. D. Sweet



BellSouth Services

January 4, 1991

Item 118
Attachment 1
Page 10 of 10

Mr. R. C. Harper
Contract Negotiations Manager
AT&T Network Systems
6701 Roswell Road, N. E.
Atlanta, GA 30328

Dear Bob:

In response to your verbal request, BellSouth anticipates accepting AT&T's revised SESS(R) Switch Contract Proposal for 1991, dated October 30, 1990. Our intent is to accept the proposal, at commitment level 3, along with the subsequent modifications that have been agreed to, such as the 14.5% growth discount, the digital line adjustment, 1A processor trade-in, etc. Our acceptance is contingent upon satisfactory resolution of, but not limited to, the following issues:

1. Continuation of SEDOPS at no charge.
2. Plug-in repair costs.
3. Modification of features included in the Core Package Software

We appreciate AT&T's diligence in working towards completion of the final 1991 Agreement. Please contact me on 420-6052, if you should have any questions or comments.

Sincerely,

Veronne H. Williams
Senior Contract Manager

Copy to: W. D. Sweet
S. F. Manion
M. E. Ward

Southern Bell Telephone & Telegraph Co.
Georgia Public Service Commission Audit
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Item No. 1188
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REQUEST: Why did BellSouth request AT&T address the following issues:

1. SESS growth costs, and
2. AT&T's pricing of feature software.

RESPONSE: 1. Growth costs refer to dollars spent adding lines, trunks, software upgrades, and new software features to SESS² digital switches embedded in our network.

Competition between Switch Suppliers for the initial switch replacement provides the necessary cost containment on the "initial first cost". Once the switch is in the network, growth requirements can only be provided by the original equipment manufacturer and no competition exists.

Although the switch selection decision is based on overall "life cycle cost" BellSouth continuously strives to reduce the growth costs associated with switching equipment.

2. As stated above, BellSouth was striving to reduce growth costs. Software RTU Fees are a major part of growth costs. AT&T's method of pricing (per switch module) for many features in the SESS² resulted in higher RTU fees than similar features deployed in other technologies in the network.

INFORMATION PROVIDED BY: Frances Dennis
Operations Manager
675 West Peachtree St.
Atlanta, GA 30375

Southern Bell Telephone & Telegraph Co.
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REQUEST: If AT&T had responded favorably to all of BellSouth's concerns, please explain the effects and implications on Southern Bell's ratepayers and unregulated services.

RESPONSE: Even though this is a hypothetical question, the Company will attempt to answer it in order to be responsive. The Company was requesting these pricing changes in order to control growth costs and help maintain stable rates. Any price changes in switch investment or related software would be reflected in future cost studies. However, changes in any single cost component would not necessarily materially impact the price of individual services.

INFORMATION PROVIDED BY: Frances Dennis
Operations Manager
675 West Peachtree St.
Atlanta, GA 30375

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REQUEST: What did AT&T ultimately do to meet BellSouth's request?

1. Explain the method AT&T used to resolve the points at issue.
2. Explain and demonstrate the effects and implications of this resolution on Southern Bell's ratepayers and unregulated services using an actual example.

RESPONSE: 1. Although BellSouth cannot answer for AT&T, the Company will attempt to summarize the process which occurred. As part of the typical procurement process, BellSouth's November 1989 letter on SESS^R growth costs was the beginning of a series of negotiations between the Company and AT&T.

AT&T's SESS^R price restructure was implemented nationwide and was not unique to BellSouth. Furthermore, AT&T's price restructure only impacted a small subset of list prices. The negotiations referred to above were BellSouth's efforts to obtain the best contract on SESS^R hardware and software. This included an attempt to maximize discounts off AT&T's list prices based upon BellSouth's business volume.

The culmination of this negotiation process was an increased discount off list price for BellSouth.

2. The AT&T SESS^R Price Restructure only affected the LIST PRICE of a small subset of items normally ordered on growth jobs. However, as discussed in # 1 above, the resulting negotiations did result in an increased discount off list price for BellSouth.

It is not practical to provide an actual representative example since each individual growth job has unique software/hardware requirements. However, in an attempt to be responsive, see the response to Item 118C for additional discussion.

INFORMATION PROVIDED BY: Frances Dennis
Operations Manager
675 West Peachtree St.
Atlanta, GA 30375

Southern Bell Telephone & Telegraph Co.
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REQUEST: Provide a complete explanation of SE7 and a list of offices where it is installed.

RESPONSE: Software Release SE7 is a designation used by AT&T to identify a particular generic upgrade. Release SE6 would indicate the previous upgrade and Release SE8 would be the designation for the next upgrade. AT&T traditionally rolls out one upgrade per year. An analogy for a software release upgrade in a central office would be LOTUS 123 or WORDPERFECT upgrades in a Personal Computer. Each upgrade provides new or improved features and functionality in addition to corrections identified in the previous release.

Georgia has thirty three (33) SESS^R Host/Standalone Central Offices in the network. Only four offices are on release SE7. They are as follows: Chamblee Main, Columbus NW, Dunwoody, and Toco Hills.

INFORMATION PROVIDED BY: Frances Dennis
Operations Manager
675 West Peachtree St.
Atlanta, GA 30375

Southern Bell Telephone & Telegraph Co.
Georgia Public Service Commission Audit
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REQUEST: A February 8, 1990 letter to Mr. C. S. Boren, V.P.-Procurement, Property and Services BSS from J. S. Topor V.P. AT&T Network Systems Sales mentions the concept of "revenue sharing."

1. Please explain the concept of revenue sharing as used in this letter.
2. Explain BellSouth's response to AT&T's proposal to implement revenue sharing.

RESPONSE: 1. Although BellSouth cannot answer for AT&T, the Company will attempt to answer the question in order to be responsive. Based upon the Company's interpretation of AT&T's intent, we believe this AT&T proposal was referring to some kind of deferred payment schedule for SESS[®] software Right To Use fees based upon BellSouth's market penetration.

BellSouth did not pursue any type of revenue sharing with AT&T. It is BellSouth's policy to pay for Right To Use fees prior to deployment of any features in the network. *

2. BellSouth did not pursue revenue sharing with AT&T. Revenue sharing was not implemented in our contract agreement with AT&T for switching equipment.

INFORMATION PROVIDED BY: Frances Dennis
Operations Manager
675 West Peachtree St.
Atlanta, GA 30375

Southern Bell Telephone & Telegraph Co.
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REQUEST: Regarding 2/8/90 letter to Mr. C. S. Boren from Topor.

1. Please explain the following statement "In that contract AT&T responded to BellSouth's well documented concerns about the SESS Switches competitive position on first costs, mainly focusing on the forthcoming 1AESS (tm) Switch replacement."?
2. Please identify the "certain considerations" discussed in the last sentence of the second paragraph on page 1.
3. Please explain the following statement 2. BRCS will be repackaged into groups of features more in line with BellSouth's needs with very attractive pricing.
4. Please provide a copy and explanation of BellSouth's "unified list of desired features" (page 2).
5. Please explain the following statement:

We completely understand your concerns about the effect that the price of our features have in regard to our ability to generate tariffs that are within the range of your customers willingness to pay.

6. Please provide all "previous letters on the availability and costs of SESS special features" discussed on page 3.

- RESPONSE:
1. Although BellSouth can not answer for AT&T, the Company will attempt to answer the question in order to be responsive. Based upon the Company's interpretation of AT&T's intent, we believe that AT&T was referring to BellSouth's concerns about the competitiveness of the initial cost of the SESS^R switch as it replaced the 1ESS switch.
 2. Although BellSouth can not answer for AT&T, the Company will attempt to answer the question in order to be responsive. Based upon the Company's interpretation of AT&T's statement, we believe it refers to additional discounts requested by BellSouth (considerations) in return for an increased commitment of business to AT&T.
 3. At this time, Business Residential Custom Services (BRCS) was offered only in packages (groupings of individual features). AT&T's statement refers to the regrouping of these packages into smaller packages and in some cases individual feature offerings. This allowed BellSouth to purchase smaller packages more in line with its needs.

Southern Bell Telephone & Telegraph Co.
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4. Although BellSouth can not answer for AT&T, the Company will attempt to answer the question in order to be responsive. Based upon the Company's interpretation of AT&T's reference, Attachment 2 will show a "unified list of desired features". This information will be made available for review at a mutually agreeable time and place. The list is a comprehensive feature priority list for the SPSS^R and LAESS switches. These lists were developed to help communicate our feature development requirements and priorities to major vendors such as AT&T.
5. Although BellSouth can not answer for AT&T, the Company will attempt to answer the question in order to be responsive. Based upon the Company's interpretation of AT&T's statement, we believe AT&T was stating that they understood that the cost to deploy some features in the SPSS^R could cause our tariffs to be higher than our customer's willingness to pay.
6. BellSouth Procurement is unaware of "previous letters" from Mr. Boren to AT&T addressing availability and costs of SPSS^R special features. BellSouth's concerns with respect to high growth costs including software features has been expressed to AT&T in many different forums (eg., meetings, contract negotiations, etc.).

INFORMATION PROVIDED BY: Frances Dennis
Operations Manager
675 West Peachtree St.
Atlanta, GA 30375



118 G4
Attachment 2
p1 of 12

BellSouth Services

D. W. Jones
Assistant Vice President
Network Planning

675 West Peachtree Street, N.E.
Atlanta, Georgia 30375
404 529-0815

August 24, 1989

Mr. J. R. Griser
Sales Director - Switching
AT&T Network Systems
300 Chase Park South
Birmingham, Alabama 35244

Dear Mr. Griser:

Development of timely, cost effective software for our network switches is of prime importance to BellSouth. At divestiture, BellSouth formed an interdepartmental intercompany Switch Feature Evaluation Committee (SFEC) whose only purpose was to establish priorities for vendor software development. Until now, the SFEC only set priorities for miscellaneous central office features and for features requiring relatively small development effort. Priorities for features requiring large development efforts such as Integrated Services Digital Network (ISDN), Common Channel Signaling (CCS7), and Custom Local Area Signaling Service (CLASS) were set by individual project teams. These feature priorities were conveyed to AT&T separately in meetings and various correspondence.

In our regularly scheduled November 1988 meeting between the BellSouth SFEC and AT&T Network Systems, the need for a single priority feature list was recognized. Following that meeting, the SFEC began the process of reevaluating nearly 1200 feature requests including a host of ISDN, CCS7, and CLASS features. Those features that were determined to be of high interest to BellSouth were further evaluated and priorities established for each feature consistent with our corporation's marketing and network strategies.

Attached, you will find the BellSouth feature priority lists for the 5ESS and 1AESS switches. These lists indicate the rank for each feature, the Bellcore TA-TSY-000185 reference where available,

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feature title, BellSouth contact, Bellcore reference documents where available and the desired general availability date. Descriptions for the attached features may be found in the associated technical requirements documents. For features without current requirements, a brief description of the feature may be found in TA-TSY-000185. Descriptions for features not yet in TA-TSY-000185 will be provided to you as they become available.

It is important to note that our interest in many of these features is predicated upon availability by the date indicated. In some cases, later availability may decrease our interest. In determining our interest and priorities in these features, no consideration was given to the cost of development. Feature prices out of line with our customer's willingness to pay may decrease our interest in these features as well. A date of 01/01/99 is shown for any feature where a desired general availability date was not available.

For these reasons, it is important that an ongoing dialogue be established between our subject matter experts. It is our intention to revise and reissue this list semiannually in April and October with follow-up meetings in May and November. Ad hoc meetings, conference calls, etc., between our subject matter experts will take place throughout the year to review requirements, proposed availability dates, planning prices, etc., and to determine the final disposition of each feature. It is expected that some features will be removed from the lists because of lower interest due to cost, newer evolving technologies and missed market windows. Conversely, new features will be added to the lists as new market opportunities arise and new technologies become reality.

Presentation of these lists do not represent any commitment by BellSouth or any of its subsidiaries to purchase any product whether or not it provides any of the capabilities or features presented on the lists. Commitments to purchase any of these features must be secured through the BellSouth Services purchasing and contracting organization.

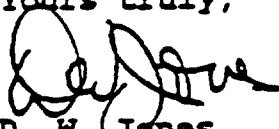
Within the next few days, a representative of our SFEC will be contacting your representatives to make meeting arrangements to allow our SFEC to formally present the list and establish a framework for future dialogue.

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I believe that these new priority feature lists and the process we have implemented within BellSouth to develop them, will help us to better communicate our feature development requirements to AT&T Network Systems. If you have any questions please call me on 404-529-0815. If your associates should have any questions about the list they may call Jim Bridges at 205-977-7177 or the BellSouth contact if the question pertains to a specific item on the list.

Yours truly,



D. W. Jones
Assistant Vice President - Network Planning